BOOK REVIEWS

Industrial America. Berlin Lectures of 1906. By J. LAURENCE LAUGHLIN, Ph.D. New York: Charles Scribner's Sons. Pp. 261.

In the seven lectures contained in this volume Professor Laughlin, during the past summer, presented to German audiences, in the German language, the principal features of existing industrial problems in the United States. The themes discussed embrace protectionism and reciprocity, the labor problem, the trust problem, the railway question, and the banking problem. There is an introductory chapter on American competition with Europe, and a concluding chapter on the present status of economic thinking in the United States.

As the author's aim was to clear the ground for correct thinking by foreigners on these subjects, much of the work has an elementary flavor; yet there is nothing now in print better worth the attention of American readers of average intelligence, who are looking for explanations of those problems at once clear, calm, and of moderate compass. Hence the brief apology in the preface for presenting to our own people the results of studies undertaken primarily for Germans in Germany is unnecessary.

The introductory chapter, on American competition with Europe, contains an interesting array of facts, but no novel suggestion, except possibly the lecturer's admonition to his hearers that, if they would have the most efficient masters of production in the industrial field, they must put them on an equal footing with the learned professions, as regards social position. The steel-maker must rank with the lawyer, the parliamentarian, the college professor, each according to his grade in his own calling. "The ablest men in America," he says, "are not in the army, or navy, or in the public service, but in industry. In most countries of Europe until lately this is exactly the reverse." Until lately! Such words imply that this industrial drawback, if it be such, is already correcting itself. There is perhaps nothing which stands less in need of stimulus than the readiness of society in both Europe and America to make room for the almighty dollar.

Professor Burgess has been much maltreated by the press on account of some remarks made in his first lecture in Germany on protectionism and the Monroe doctrine. The verbatim report, which followed at a long interval behind the telegraphic synopsis, was quite mild in its treatment of the tariff, in comparison with Professor Laughlin's. Professor Burgess said that in the minds of the educated classes in America the doctrine of protection is superannuated and shop-worn—which is true. Professor Laughlin is more incisive. In his exordium he likens the tariff to a savage animal with sharp teeth, that a hunter (Uncle Sam) has caught in such a way that it cannot bite while the latter maintains his grip firmly, but the hunter is very anxious to find somebody to help him let go. Other figures of speech disrespectful to the "standpatters" are found, but it must not be inferred that the author looks at the tariff mainly in its humorous aspects. A more weighty treatment of a serious theme can hardly be found than his exposure of the political virus and the socialistic germs born of protectionism and growing visibly from day to day.

There is a great deal of loose talk in the newspapers and on the platform about "settling the labor question," by which is commonly meant such an adjustment of the pay, the hours, and the environment of wage-earners that controversies between them and their employers shall cease. Professor Laughlin does not look for any such settlement. "The rank and file of the laboring class fully believe that there is no economic reason why the wages, for instance, of a plumber now receiving $4 per day should not be increased to $10 or even to $50 per day." There is no reason except the fact that the business cannot afford it. But the plumbers will not take the employer's word for that. In order to find the economic limit for themselves, they will form a union, make demands, and strike from time to time. The process will be repeated as often as they think they can secure higher pay, or shorter hours, or better conditions; and the process will keep pace with the process of the suns. This outlook may be painful for the lovers of peace and quiet to contemplate, but the alternative is state socialism, which would be far worse. Yet Professor Laughlin is no pessimist. The general ferment in the field of labor, in his view, "is but the sign of an awakening desire for better things on the part of a virile and ingenious race," and it will lead to a higher standard of living

which will add to the productiveness of labor, to the intelligence and reasonableness of the laborer, and to the advantage of the country.

The author makes it pretty clear—and here he follows Professor J. B. Clark, to whom due credit is given—that indiscriminate trust-killing is no remedy for any present industrial evil. The trusts have cheapened both production and distribution enormously, and this makes for the common good. The trust problem is not to be solved by the thunder of the captains and the shouting, as a recent candidate for governor of New York imagined. Trust regulation does not necessarily mean trust destruction. "The problem of regulation is to permit large companies, but to prevent, if possible, monopoly." Monopoly has existed because discriminations in the market have been tolerated, such as secret rebates in transportation, secret (and sometimes open) discrimination in the sale of goods. The New York Central Railway Company, has been convicted in court and heavily fined for giving rebates to the Sugar Trust. The Sugar Trust itself has often crushed competition by making its prices lower in one part of the country than in other parts, perhaps with the help of the railroads, perhaps not. Congress and the courts have found a way to reach the offending carriers. May they not reach the discriminating sellers also by making it a criminal offense for a trust to charge different prices to different buyers? We are at the threshold of this and similar inquiries now. The suit against the Standard Oil "holding company" is interesting because it points to the solution of the general problem.

> Society is setting itself to work to retain all the essential advantages of large operations, and yet to protect the rights of individuals. There is no reason yet to believe that this task, any more than others in the past, is beyond the powers of the American people with its Anglo-Saxon traditions.

The words here quoted are seemingly confirmed by the New York election, although they were written months before the issues of that campaign were settled.

It is a short step from the trust question to the railway question. The trust and the railway feed each other from the public corpus. Which of the two is the greater sinner it is not easy to say. Most commonly the railways receive the first chastisement, but they are perhaps not the first to deserve it. "The large shippers have their heels on the necks of the railways." The founder of the house of Vanderbilt, a man accustomed to ride rough-shod over everybody

and everything, once said that there was only one man in the world whom he was afraid of, and his name was Rockefeller. This was said at a time when the latter was known only in a narrow circle, but he already had the power to control the shipment of oil in large quantities. So old Commodore Vanderbilt was deferential and obsequious to young Mr. Rockefeller, although he was the Grand Turk to everybody else. The Oil Trust, the Sugar Trust, the Beef Trust, and all the other large shippers, whether corporate or non-corporate, each holds a whip over the railway traffic manager who has been, these many years, debating the question whether he can best afford to brave the terrors of the law or those of the whip-holder. As the latter are near and certain, while the former are remote and doubtful, the decision has usually been in favor of illegal rebates. We have now reached the point where the government is determined to make itself the more terrible master of the two.

Putting a stop to discriminations between the individual shippers will solve the most exasperating of the railway problems, although discriminations between localities, together with commodity rates and general rates, will remain to be battled over. These great and complicated questions, upon which so much time and energy have been expended in Congress and the press, are treated by Professor Laughlin without passion or prejudice, and without the omission of any real factor of the problem. Government ownership of railways is not, in his judgment, desired by any large number of Americans.

That the banking question deserves a place in any comprehensive survey of American industrial problems is the prevailing opinion, and is not to be gainsaid; but few persons, even bankers, understand what the problem consists of, or in what particular our present system is defective. Professor Laughlin points out clearly the important difference betwen a lack of deposit currency and a lack of hand-to-hand currency. A lack of the former may apparently exist when there is no shortage of the latter. The rate of interest in Wall Street may go to 125 per cent., and cause wailing and gnashing of teeth in the circles of high finance at a time when there is plenty of currency for the payment of wages and for all the purposes of retail trade everywhere. In such a case the high rates cannot be due to any defect in the National Bank Act. The

power to issue bank-notes *ad libitum* would not relieve the stringency. The circulation being already full, additional notes would not be taken out by the bank's customers, or, if put out, would immediately come back for redemption. The stringency in such a case can be relieved only by an addition to the *reserves* of the banks (i. e., by more gold), or by such a decline of prices as shall enable the collateral for bank loans to be carried by the existing reserves. If the prices of commodities and securities refuse to go down, gold *will be* imported, perhaps to such an extent as to cause a rise in the rate of discount in foreign capitals. The movement is automatic and self-regulating.

While there is no necessary connection between the two kinds of shortage—that of deposit currency and that of the circulating medium—there is frequently a close connection which looks like the operation of cause and effect. At the crop-moving season there is a larger demand for circulating money than at other seasons; and this circulating money, under present banking conditions, will consist for the most part of bank reserves, which will be depleted accordingly. The depletion means the sudden calling-in of loans in the reserve cities, and the resulting stringency may even bring on a panic, as it did in the autumn of 1873. The cause of the panic, however, is to be found in the inflation and speculation in business generally—a kind of explosive material liable to be touched off at any time, but especially by a sudden depletion of bank reserves. As a remedy for this rhythmical depletion of reserve money Professor Laughlin adheres to the plan of "asset currency" embraced in the Report of the Indianapolis Monetary Commission, of which he was a member.

In the chapter on banking are one or two slips, quite unimportant in themselves, but which should be corrected in any future edition. On page 185 it is said that "by a popular agitation in favor of cheap money Andrew Jackson was carried into the presidency." This must refer to his first election. Although there was much turmoil over the money question at that time, no biography of Jackson with which the reviewer is acquainted mentions it as one of the issues in the presidential campaign of 1828. If it had been such, it would not have escaped the notice of Sumner.

On page 212, in a paragraph dealing with the security taken by the treasury for the deposit of the government's money in national

banks, we read that "so far only government bonds have been accepted, and once the line is crossed to other securities the danger will be in not knowing where to stop." That line was crossed nearly two years ago by the present secretary of the treasury, whose amendments to the laws passed by Congress include one which substitutes the word "or" for the word "and," where it occurs in section 220 of the National Bank Act, viz.: "The secretary of the treasury shall require the associations [banks] thus designated to give satisfactory security by the deposit of United States bonds *and* otherwise, for the safe keeping and prompt payment of the public money deposited with them," etc. Under the law as amended by himself Secretary Shaw has accepted, for deposits in New York, miscellaneous securities in which savings banks are allowed to invest their deposits. The words "and otherwise" in the law of Congress mean the personal bonds of the high officers of the banks receiving the deposits, as the House debate on the bill, and the uniform practice of forty years, show.

Professor Laughlin's concluding chapter, on the present status of economic thinking in the United States, does not deal with industrial America. It seeks to give the range and variations of economic theory from the close of the Civil War to the present time. More stress is laid upon the wages-fund controversy than upon any other. The works of F. A. Walker, Henry George, J. B. Clark, T. N. Carver, F. A. Fetter, Irving Fisher, S. N. Patten, and A. T. Hadley are particularly noticed, but without dogmatical treatment. Incidentally the marginal-utility nomenclature, which so much abounds in latter-day discussions, is discountenanced, since the intelligent layman cannot understand them. The following words on this subject, with which the reviewer heartily concurs, may fitly bring to an end this examination of Professor Laughlin's Berlin lectures:

> One is forced to believe that, when any real truth has been arrived at, it can be stated in simple, comprehensive language. One is also obliged to express the opinion that the concentration of time and thought upon speculative questions of value, which properly belong to psychology, will result in little gain to the body of economic principles; nay more, that this inclination toward the speculative side of economics stands in the way of a needful progress in our main scientific formulations.

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